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SIPDIS

DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA  
PARIS ALSO FOR USOECD  
TREAS FOR OASIA STUART  
FRANKFURT FOR WALLAR  
USDOC 6800/ITA/TD/OTEA/TISD/HSCHULTZ  
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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [IT](#) [EXPORT](#) [CONTROLS](#)

SUBJECT: ITALYS REACTION TO ITS STRUGGLING EXPORT SECTOR

REF: A. ROME 4923

[1](#)B. ROME 4236

[1](#)C. ROME 2853

[1](#)1. Summary: The slump in Italys export sector continues to generate much public discussion. In contrast to calls a few months ago for tariffs and retaliation against cheaper exports from Asia, government and private sector officials are calling for a radical overhaul in Italys export sector. They are proposing higher spending for research and development, a greater diversity in export products, and incentives for innovation, despite strong pressures on Italys budget. End summary.

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EXPORT TRENDS  
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[1](#)2. According to Italys Central Bureau of Statistics, ISTAT, exports decreased by three percent, while imports increased by 0.8 percent, in the first nine months of 2003 compared with the corresponding period in 2002. The trade balance registered an E3.7 billion surplus through September 2003, a third of the E13.3 billion surplus registered in the corresponding period in 2002. The current account deficit more than tripled, from E3.4 billion at the end of September 2002 to E14.5 billion at the end of September 2003.

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ITALIAN TRADE COMMISSION ON THE EXPORT CRISIS  
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[1](#)3. In November, Emboffs met with Beniamino Quintieri, President of ICE - the Italian Trade Commission - for an exchange of views on foreign trade. The primary function of ICE, established in 1936, is to promote the export of Italian products. Beniamino Quintieri, 51, president of ICE since July 2001, is also professor of economics at Libera Universita degli Studi Sociali (LUISS).

[1](#)4. According to Quintieri, Italian exports to major markets are facing stiff competition from, and losing market share to, cheaper exports from Asia. This phenomenon is not new, he argued, since Italian exports historically have grown more slowly than German or Chinese exports. The stronger euro and sluggish economic growth in Europe have exacerbated the problem for Italian exports, although, Quintieri explained, these factors alone do not explain the crisis in Italian exports. For example, the stronger euro also affects Germany, which is slowly emerging from a recession; but German exports, nonetheless, are growing faster than are those from other EU Member States. The increase in German exports is helping turn Germanys economy around.

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THE CHALLENGE  
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[1](#)5. On November 12, ICE sponsored a round table discussion on the results of a report on foreign trade by ICE/Prometeia. (Prometeia is a Bologna-based think tank.)

[1](#)6. Deputy Trade Minister Urso, one of the participants, discussed Chinas competitive edge on Italian manufacturing exports. Italys highly specialized, high-cost export sector is particularly vulnerable to competition from Chinese exports, he argued. Urso also contended that China is the first lesser-developed country (LDC) to benefit from globalization and the openness of world markets. In the past, western countries were those that received the greatest benefits

from foreign trade. Now, it is China that gets more than what it gives.

17. Urso and other participants also raised concerns about

the changeover from the lira to the euro. Italy switched from the weakest currency within Europe to the strongest, they noted. This new situation was a shock for Italian companies, especially exporters, and is not expected to improve in the short term. Urso mentioned that according to the latest financial forecasts, the euro is expected to strengthen further against the dollar during 2004, and could approach E1 to USD 1.20. (Note: A level already passed this week. End note.)

18. Other speakers called for greater government support to the Italian export sector, especially as it attempts to innovate and diversify. In that regard, the Italian Government has included in its draft 2004 budget specific tax deductions for research and development. The 2004 budget also provides E400 million 2004-2006 to support Italian companies abroad. This package of incentives, negotiated with Italys leading industrial associations, includes:

- funds to promote the Made in Italy trademark (E125 million);
- increased funds for ICE and other associations to promote exports (E21 million);
- opening of a permanent exposition of Italian design and Made in Italy products (E20 million);
- creation of a one-stop shopping center where Italian companies abroad can access representatives from the Ministry of Foreign Affairs, ICE, and Sviluppo Italia. (Sviluppo Italia Development Italy promotes foreign investment in Italy.) (E44 million); and
- export incentives for handicraft companies (E10 million), and tax deductions for participation in trade shows abroad.

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ATTRACTING FOREIGN INVESTMENT TO ITALY  
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19. Italian officials, both public and private, are also promoting foreign investment in Italy. Recently, PM Berlusconi visited the New York Stock Exchange, the first time an Italian PM has done so, according to Quintieri. American business attitudes toward investing in Italy are positive, Quintieri argued. Nonetheless, he acknowledged that U.S. business is encouraging Italy to simplify its labor rules, improve infrastructure and increase the efficiency of its tax system and its central and local bureaucracy.

110. The central government has given regional authorities some authority to promote foreign investment in their areas, and regional governments with ICE assistance are pursuing foreign investment. According to Quintieri, ICE and Sviluppo Italia are also organizing an event in New York in December to present projects to potential U.S. investors.

111. Quintieri also explained that there is some overlap in functions of Sviluppo Italia with those of ICE, responsible for Italian exports as well as foreign investment in Italy. ICE, with its large network of offices around the world, serves as a point of contact for Italian companies abroad.

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AND SUPPORTING ITALIAN INVESTMENT ABROAD  
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112. Italian companies need to look beyond Italys own borders not only for markets for their products but also for opportunities for direct investment, Quintieri argued. Investment abroad can help make Italian companies more dynamic, he said. Despite these initiatives, the GOI may still face an up-hill struggle

to convince Italian firms of the benefits of foreign investment. Quintieri said that Italian companies do not recognize the benefits for the domestic market that investment abroad brings. Many Italian companies still think that investment abroad would force them to cut back on jobs in Italy. On the contrary, Quintieri argued, experience shows that those companies that invest abroad increased the number of jobs in Italy and had stronger balance sheets than those that sold only in the domestic market.

¶13. Quintieri said ICE is interested in encouraging joint Italian/U.S. investment in the ten EU accession countries and in Eastern Europe, in general. According to Quintieri, Italy is second only to Germany in investment in Eastern Europe.

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COMMENT  
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¶14. In the short term, the euros strength will continue to penalize Italian exports. At the same time, Italys  
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EU membership and WTO obligations severely constrain the government from taking retaliatory steps to improve its trade position with respect to its competitors, whatever the domestic political rhetoric. Despite strong pressures on budgetary expenditures, the GOI therefore appears to be embarking on the road of helping underwrite diversification and expansion into non-traditional markets. End comment.

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